



U.S. Department of Housing and Urban Development

District Office of the Inspector General
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October 1, 1996

Audit-Related Memorandum
No. 97-AT-262-1801

MEMORANDUM FOR: Margaret Stephens-Siller; Director, District Contracting
Division, 9AC

FROM: James D. McKay
Acting District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Intown Properties, Inc.
Atlanta, Georgia
Evaluation of Termination Claim for REAM Services
(Contract Numbers: C943S929 - A001, A002, A003, A004)

INTRODUCTION

As requested, we did a limited review of Intown's revised termination claim (\$305,906) for Real Estate Asset Manager (REAM) contracts administered by HUD's San Francisco Office. The primary objective of the review was to provide advisory information to you on whether claimed amounts were supported.

SUMMARY

The revised claim was generally supported except for \$44,095 questioned and \$27,052 unresolved costs (see Attachment A). We provided HUD representatives a draft copy of Attachment A for consideration in negotiations with Intown. On September 18, 1996, HUD and Intown resolved the claim, and signed an agreement that settled all related issues.

Pursuant to the settlement agreement, Intown shall be paid \$297,489 with appropriate interest to resolve the claim, including legal and claim preparation costs, which were outside the scope of our limited review. This memorandum summarizes our work's scope and results.

REVIEW SCOPE AND OBJECTIVE

We had evaluated Intown's initial claim, and on March 24, 1995 issued a report on the results (95-AT-269-1008). Intown appealed the Contracting Officer's decision to the Board of Contract Appeals, and prepared a revised claim. In the revised claim, Intown added 171 properties attributed to the new contract termination date, and recomputed direct, site and corporate overhead costs.

We reviewed Intown's revised termination claim to provide advisory information for the contract settlement process.

We selected (using judgmental sampling) and examined direct costs for 20 percent of the added properties in each of the four contract areas. We also compared all the new properties to those from the prior claim for duplicates. We examined the methodology Intown used to calculate both its site and corporate overhead rates; and charges for original and added properties. We made general inquiries to management concerning the nature and source of the costs used in the calculations, and the methodology used to compile the revised claim for costs. We also scanned the claim for properties listed after the revised contract termination date for offset of listing fees, and for other possible overcharges.

We performed the review at Intown's Atlanta office during August and September 1996. This limited review was not an audit, being substantially different in scope than an audit in accordance with generally accepted auditing standards, or generally accepted government auditing standards. Our review objective was to provide limited assurance on the methodology Intown used to compile the revised claim, and on support and relevance of claimed costs.

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If you have any questions, please call Ted Drucker, Assistant District Inspector General for Audit, or Narcell Stamps, Senior Auditor, at (404) 331-3369. We were glad to assist.

Attachments

Appendix A Schedule of Results

Appendix B Distribution

SCHEDULE OF RESULTS

<u>Contract Area</u>	<u>Intown's Revised Claim</u>	<u>Questioned Costs</u>	<u>Claim Net of Questioned Cost</u>	<u>Additional Unresolved Costs</u> <u>Notes</u>
Riverside South	\$77,304			
		\$2,706		1
		483		2
		3,285		3
		3,190		5
		358		6
				7
subtotal		<u>\$10,022</u>	\$67,282	5,482
Riverside North	98,729			
		\$3,495		1
		206		2
		1,576		3
		11,925		4
		3,333		5
		684		6
				7
		<u>1,265</u>		8
subtotal		<u>\$ 22,424</u>	76,245	11,010
San Bernardino	74,258			
		\$2,032		1
		3,187		5
		102		6
				7
		<u>1,921</u>		8
subtotal		<u>\$ 7,242</u>	67,016	3,284
Palm Desert	55,615			
		1,295		1
		1,347		5
		410		6
				7
		<u>1,295</u>		8
subtotal		<u>\$4,347</u>	<u>51,268</u>	7,276
Grand Total	<u>\$305,906</u>	<u>\$44,095</u>	<u>\$261,811</u>	<u>\$27,052</u>

Explanatory Notes

1 **Direct Costs** - Intown claimed some direct cost for new properties that were incurred after the January 3, 1994 contract termination date and some that were charged to the wrong address and/or were duplicated. We also determined that Intown did not adjust costs claimed for properties carried forward from its prior claim for amounts incurred after the contract termination date. Therefore, we projected our 20 percent judgmental sample error (\$312) for the new properties to the universe of total properties (new and old) to arrive at the \$9,528 adjustment.

Intown acknowledged that it had not adjusted the claim for costs incurred after the contract termination date. Intown also projected an amount attributed to such cost. We based the adjustment on the results of our analysis because we verified the base from which the projections were made. Intown's projections were slightly more.

2. **Properties Assigned After the Contract Termination Date**- We deducted \$689 for six properties that were assigned to Intown after the January 3, 1994 contract termination date.
3. **Properties Claimed Twice** - We deducted \$4,861 for 15 properties Intown claimed twice. Intown claimed the properties on both its list of new properties and on its list of old properties for termination recalculations. We deducted the amounts Intown claimed for the homes under their classification as old properties.
4. **Calculation Mistake** - Due to a calculation mistake, Intown overstated overhead cost for the Riverside North area by \$11,925. Intown calculated a daily per property overhead rate of \$.83 but used \$1.16 to arrive at the amount claimed.
5. **Overhead** We recalculated the rates Intown used to compute its overhead costs. We deducted site salaries and fringe benefit costs incurred after January 3, 1994 from the cost base (direct site costs) Intown used to calculate the rates. We also based our calculations on the number of days in the contract figured from the revised January 3, 1994 contract termination date. Intown figured its calculations based on a January 31, 1994 contract termination date. The adjustments resulted in the following impact on the rates:

<u>Contract Area</u>	<u>Overhead Rates Calculated by</u>		<u>(Net Decrease)</u>
	<u>OIG</u>	<u>Intown</u>	
Riverside (North and South)	\$.76	\$.83	\$ (.07)
San Bernardino	1.05	1.16	(.11)
Low Desert	1.27	1.34	(.07)

Based on the adjusted rates, Intown's overall claim for site overhead was overstated by \$11,057 and we adjusted the claim for that amount.

6. **Questioned Listing Fees** - Intown did not reduce its claim by the amount of all listing fees paid by HUD, nor did it offset the claim to reflect listing fees paid which exceeded documented expenses. We reduced the claim by \$1,554 for such properties that were listed prior to the contract termination date, January 3, 1994:

<u>Contract Area</u>	<u>Reductions in Claim Attributed to</u>		<u>Total Reduction</u>
	<u>Effect of Claim Not Being Reduced for Listing Fees Paid</u>	<u>Listing Fees that Exceeded Expenses</u>	
Riverside North	\$ 292	\$ 392	\$ 684
Riverside South	248	110	358
San Bernardino	0	102	102
Palm Desert	0	410	410
Total	<u>\$ 540</u>	<u>\$1,014</u>	<u>\$ 1,554</u>

7. **Unresolved Listing Fees** - Intown did not reduce its claim for listing fees paid on certain properties that were in its inventory prior to the January 3, 1994 contract termination date nor did it offset the claim to reflect listing fees paid which exceeded documented expenses. These properties were not listed until after contract termination.

<u>Contract Area</u>	<u>Amounts Attributed to</u>		<u>Total Reduction</u>
	<u>Effect of Claim Not Being Reduced for Listing Fees Paid</u>	<u>Listing Fees that Exceeded Expenses</u>	
Riverside North	\$7,564	\$3,446	\$11,010
Riverside South	5,278	204	5,482
San Bernardino	3,236	48	3,284
Palm Desert	6,895	381	7,276
Total	<u>\$22,973</u>	<u>\$4,079</u>	<u>\$27,052</u>

8. **Other Amounts** - In our prior audit of Intown's claim, we reported that for 11 properties HUD made duplicate payments totaling \$4,481 (Audit Report No. 95-AT-269-1008, dated March 24, 1995, Appendix A, Note 4b). This matter remains unresolved.

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